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SIPDIS

SENSITIVE

NSC FOR SENIOR AFRICA DIRECTOR JENDAYI FRAZER  
LONDON FOR CGURNEY  
NAIROBI FOR PFLAUMER  
PARIS FOR NEARY

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TAGS: [ECON](#) [ETRD](#) [EFIN](#) [ZI](#)

SUBJECT: ZIMBABWE'S ECONOMY: PATIENT IS ON LIFE SUPPORT,  
BUT COULD HANG ON FOR YEARS...

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[1](#)1. (U) Summary: Ambassador Sullivan and the economic/commercial section hosted a group of American-connected businessmen for lunch on October 23 as a first step towards resurrecting an American Business Association. Although the mission expected to hear the usual commentary about an economy in decline, the discussion revealed surprising strength in some sectors of the beleaguered business community. However, regardless of how well those who remain within the formal economy are coping with the current situation, the formal economy no longer represents the majority of workers or businesses, and the impact of the current economic crisis is falling disproportionately on those at the lower end of the economic scale. Although "captains of industry" can still enjoy a lavish lunch at the finest restaurant in the country for less than US \$5 per head, hundreds of thousands of poverty-stricken people in the rural areas are coming to grips with the approaching famine. While some people will undoubtedly continue to flourish, they remain a fraction of the population as a whole. End summary.

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WHAT ECONOMIC STATISTICS MAY OVERLOOK  
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[1](#)2. (U) The discussion began with an unexpected assertion by a representative of a Big 5 accounting firm who declared that despite the negative press image, many Zimbabwean businesses were reaping phenomenal profits. He pointed out that the profit ratio for many businesses had increased by as much as 300%, and opined that if the economy was simply an aggregate of businesses, it was doing much better than the raw economic data portrayed. He painted a picture of an economy which could continue to function -- although mostly in the informal sector -- for years.

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STILL, MANY FIRMS HURTING  
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[1](#)3. (U) This surprising opening gambit was met with skepticism by several of the more commodity-dependent businessmen. One representative from a major oil company pointed out that controlled prices were crippling producers and distributors. Gasoline, for instance, is currently sold for Zim \$74 per liter, which equals about US \$.23 per gallon. As one attendee pointed out, petrol is not only cheaper in Zimbabwe than in any other country in the world, it is also currently cheaper than bottled water. Another added that the people in the rural areas could afford neither petrol nor bottled water. Many of the businessmen were aware that their products -- from cooking oil to toothpaste -- were being bought at controlled prices within Zimbabwe and then re-sold for higher prices in other countries within the region. Although this increase in sales would seem to boost the company's earnings in the short term, many of the companies are in essence competing with themselves, and are losing higher-priced sales in the adjoining countries.

[1](#)4. (U) Another attendee countered the Big 5 accountant by noting that commodity-based businesses were facing additional hurdles. While controlled prices negatively affected his business as well, he felt that the eroding value of the Zim dollar, increasing labor problems and strangling limitations on forex were more significant issues. This attendee rebutted the claim of 300% profits by pointing out that in US dollar terms, even allowing for inflation, the profits for this year could not command the same purchasing power as one year ago. He also felt that labor issues, many of them based on the erosion of the Zim dollar which is hitting hourly workers particularly hard, were affecting not only his bottom line but also the productivity of his labor force. He narrated an incident wherein several of his company's managers were held hostage in their plant for hours by a group of employees dissatisfied with a voluntary raise which had been unilaterally granted by management. The angry

workers defied orders to disperse from the plant security force, from their union representatives, and from the police for several hours. Although the situation was resolved in the end, this manager believed that labor throughout the entire country would become more and more militant during the coming twelve months. Finally, he believed that the virtual absence of foreign exchange would continue to strangle businesses across the board.

15. (U) The scarcity of foreign exchange continues to be a key problem for most of the businesses represented. Almost every producer of commodities present was dependent on forex to some degree. Some required forex to buy components for their products, to buy spare parts for their operating equipment and delivery fleets, and to pay for international shipping costs or contingency inputs not available on the local market. Several of the representatives admitted openly that they are sourcing their forex on the parallel market, which inevitably increases pressure on profitability.

The parallel market is in constant flux and the rate responds to the demand for forex on any given day. One manufacturer pointed out that he recently received forex quotes ranging from 950:1 to 1200:1 on a single day. While he could justify sourcing forex at the higher rate for his higher-end luxury products, which some consumers would purchase at any price, that rate would put his lower-end necessity products out of the reach of most of his customers.

In many cases, manufacturers are simply proceeding on an ad hoc basis with minimal short-term planning and almost no long-term planning at all.

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HOW ZIMBABWEANS AND LOCAL FIRMS SURVIVE  
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16. (SBU) The Big 5 accountant asserted that most businessmen have figured out how to circumvent the forex problems, and several attendees conceded that they were "managing." One representative from a large multinational stated that he was manipulating his foreign currency account -- which normally requires that 40% of revenue from exports be forfeited to the government at the official 55:1 exchange rate -- in order to keep 100% of his foreign exchange income. He had to have several separate pieces of enabling paperwork signed by GOZ officials, but it seems obvious that they do not understand what he is doing. As he stated, what he is doing is not illegal, but it is not recognized by the government, and he is reluctant to bring much attention to his situation.

17. (SBU) In a separate forex-related discussion, one representative stated in an aside to the Ambassador and the Laboff that he was stunned at the amount of forex "floating" around the country. He said at least two politically well-connected contacts had indicated they had large amounts of US cash to dispose of. One contact had called him trying to exchange US \$500,000 in cash into Zim dollars. When asked if he thought the current pressure emanating from international press reports on diamond-and-cash smuggling from the DRC was responsible for the glut of US cash, the representative stated he would not be surprised if this was the case.

18. (U) One of the more surprising discussions revolved around expatriate foreign cash inflow. One representative estimated a cash inflow of around 12 million pounds monthly from expats sending home 200-300 British pounds each to their families in Zimbabwe. Another responded that even with the GOZ claiming 40% from established Zimbabwean foreign currency accounts, the GOZ is probably only capturing around Brit 200,000 pounds of this inflow per month. Another attendee mentioned companies such as Sadza.com, an amazing entrepreneurial response to the crisis in Zimbabwe. According to this attendee, Sadza.com will accept money in British pounds or US dollars, issue a "coupon" for Zim dollars, and then deliver that "coupon" to people inside Zimbabwe, who can in turn use the credit to buy groceries and other commodities. Yet another attendee related stories of professional nurses turning part-time work in the U.K. into full-time luxury back home. A nurse, who could not earn enough to support her family by working in Zimbabwe, can earn enough by working as a nursing assistant in the U.K. for one month to support her family back home for four months. Thus, for one month's labor, the nurse could pay for the round-trip ticket, stay for one month in the U.K., and then live a life of ease for three more months in Zimbabwe. Many in the group felt certain that support from Zimbabwe's many professional expatriates could continue to keep the remnants of the local economy afloat for years.

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COMMENT  
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19. (U) Despite the fact that some urban residents are managing to survive on foreign cash inflows and creative business methods, the vast majority in the rural areas and

high density suburbs are becoming more desperate by the day. Drawing upon impressions from visits to rural areas, the Ambassador suggested that the grinding poverty and hunger were spreading, a sentiment quickly acknowledged by the group as a whole and which is particularly affecting the "low-end" consumer market. This divide between relative comfort and abject poverty will inevitably widen during the coming months unless the GOZ commits to radical economic surgery. Although providers of necessities and luxuries might hold out the longest, the economy's contraction is very real. Unemployment is high, numerous businesses have closed down during the past two years, and, in contrast to professionals who have the skills to flee the country, many of the unskilled are trapped in an increasingly impoverished Zimbabwe. One of the shocks for many Zimbabweans is not how bad the economy is now, but how far it has fallen from several years ago, when Zimbabwe was the "jewel of Africa." Few anticipate that it will improve in the short term, but even fewer think it has yet reached the bottom. Nobody wants to acknowledge that countries like Somalia, Sierra Leone, and the DRC continue to "function," despite having economies even worse off than Zimbabwe's. Many businessmen -- as evidenced by this group representing American business interests -- believe the economy can continue to limp along for years, with at least some people maintaining their lifestyle. Many, however, will fall through the widening cracks and lose forever their place among the middle class.

SULLIVAN